



## Report of Independent Certified Public Accountants

To the Board of Directors of  
Securities Investor Protection Corporation

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We have audited the accompanying statement of financial position of Securities Investor Protection Corporation (SIPC) as of December 31, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of SIPC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SIPC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation as of December 31, 2008, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McLean, Virginia  
April 30, 2009

A handwritten signature in cursive script that reads "Grant Thornton LLP".

## SECURITIES INVESTOR PROTECTION CORPORATION

### Statement of Financial Position

as of December 31, 2008

#### ASSETS

Cash	\$ 523,658
U.S. Government securities, at fair value and accrued interest receivable of (\$19,011,988); (amortized cost \$1,508,787,402) (Note 6)	1,698,516,300
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$83,749,433) (Note 4)	1,800,000
Other (Note 5 and Note 8)	974,067
	<b>\$1,701,814,025</b>

#### LIABILITIES AND NET ASSETS

Advances to trustees—in process (Note 4)	\$ 675,000
Accrued benefit costs (Note 8)	11,074,298
Accounts payable and other accrued expenses	641,250
Deferred rent	410,876
Estimated costs to complete customer protection proceedings in progress (Note 4)	1,425,600,000
	1,438,401,424
Net assets	263,412,601
	<b>\$1,701,814,025</b>

The accompanying notes are an integral part of these statements.

### Statement of Activities

for the year ended December 31, 2008

#### Revenues:

Interest on U.S. Government securities	\$ 67,601,131
Member assessments (Note 3)	816,322
	68,417,453

#### Expenses:

Salaries and employee benefits (Note 8)	6,461,396
Legal and accounting fees (Note 4)	173,804
Credit agreement commitment fee (Note 5)	1,686,889
Rent (Note 5)	707,604
Other	3,642,288
	12,671,981

Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	1,423,952,260
	1,436,624,241

Total net expenses	(1,368,206,788)
Realized and unrealized gain on U.S. Government securities (Note 6)	132,368,130
Pension and postretirement benefit changes other than net periodic pension costs	(5,752,428)
Decrease in net assets	(1,241,591,086)
Net assets, beginning of year	1,505,003,687
Net assets, end of year	<b>\$ 263,412,601</b>

The accompanying notes are an integral part of these statements.

## Statement of Cash Flows

for the year ended December 31, 2008

### Operating activities:

Interest received from U.S. Government securities	\$ 69,008,667
Member assessments received	816,322
Advances paid to trustees	(12,917,342)
Recoveries of advances	1,240,168
Salaries and other operating activities expenses paid	(12,188,519)
Net cash provided by operating activities	45,959,296

### Investing activities:

Proceeds from sales of U.S. Government securities	180,649,129
Purchases of U.S. Government securities	(226,237,196)
Purchases of furniture and equipment	(137,370)
Net cash used in investing activities	(45,725,437)

Increase in cash	233,859
Cash, beginning of year	289,799
Cash, end of year	\$ 523,658

The accompanying notes are an integral part of this statement.

## Notes to Financial Statements

### 1. Organization and general

The Securities Investor Protection Corporation (SIPC) was created by the Securities Investor Protection Act of 1970 (SIPA), which was enacted on December 30, 1970, primarily for the purpose of providing protection to customers of its members. SIPC is a nonprofit membership corporation and shall have succession until dissolved by an Act of Congress. Its members include all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 except for those persons excluded under SIPA.

SIPC is exempt from income taxes under 15 U.S.C. § 78kkk(c) of SIPA and under § 501(c)(6) of the Internal Revenue Code. Accordingly, no provision for income taxes is required.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

SIPC elects to defer the application of Financial Interpretation 48 ("FIN 48") under FASB Staff Position FIN 48-3, "Effective Date of FASB Interpretation No.48 for Certain Nonpublic Enterprises," until the period beginning January 1, 2009.

SIPC accounts for uncertain tax positions and other loss contingencies, including tax-related audits, in the normal course of our op-

erations on our balance sheet. In accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," SIPC records a loss contingency for these matters when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. SIPC reviews loss contingencies routinely to ensure that appropriate liabilities are recorded on the balance sheet. SIPC adjusts these liabilities based on estimates and judgments made by management with respect to the likely outcome of these matters, including the effect of any applicable insurance coverage for litigation matters. The estimates and judgment could change based on new information, changes in laws or regulations, changes in management's plans or intentions, the outcome of legal proceedings, settlements or other factors.

### 2. The "SIPC Fund" and SIPC's resources

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$1,699,039,958.

In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission is authorized to make loans to SIPC and, in that connection, the Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount not to exceed \$1 billion. In addition, SIPC maintained \$1 billion revolving lines of credit with a consortium of banks, \$500 million of which expired effective March 1, 2009.

## SECURITIES INVESTOR PROTECTION CORPORATION

### 3. Member assessments

For calendar year 2008 and through March 31, 2009 each member's assessment was \$150. Effective April 1, 2009, each member's assessment is at the rate of 1/4 of 1% of net operating revenues from the securities business or \$150, whichever is greater. Assessments received in advance will be applied to future assessments and are not refundable except to terminated members.

### 4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 14 proceedings in progress at December 31, 2008. Customer claims have been satisfied in 7 of these proceedings and in 7 proceedings customer claims and distributions are being processed.

Advances to trustees represent net amounts disbursed and amounts currently payable for proceedings in progress, less an allowance for possible losses.

Estimated costs to complete proceedings are accrued based upon the costs of completed cases of comparable size and complexity and other costs that can be reasonably estimated. Recoveries are estimated based upon the expected disposition of the debtors' estates.

In the Bernard L. Madoff Investment Securities LLC proceeding, the trustee, utilizing the customer records available from the computer files of the firm identified those accounts believed to be valid customers. In accordance with section 7811(2) of SIPA, the definition of a "customer" includes a "person who has deposited cash with the debtor for the purpose of purchasing securities." The customer can be an individual, a corporation, a partnership, a pension plan or a "feeder fund." The trustee then calculated the "net cash" positions (cash de-

posited less cash withdrawn) for each customers' account and where available, this information was compared to other source documentation including banking records and customer portfolio files. Based on that valuation, the trustee determined the customer's net equity and maximum claim allowed under SIPA. Including administrative costs, management estimates that the total charges to SIPC for this case to be approximately \$1.4 billion. As actual claims are processed, the trustee will determine the ultimate amount of payment for each claim. Claims can be disputed, which among other factors, could cause the ultimate amount of the claims to differ from the current estimate. Any changes in the estimate will be accounted for prospectively.

SIPC and Trustees appointed under SIPA are subject to legal claims arising out of the proceedings and there are certain legal claims pending seeking coverage under SIPA. These claims are considered in determining estimated costs to complete proceedings and management believes that any liabilities or settlements arising from these claims will not have a material effect on SIPC's net assets.

SIPC has advanced a net of \$82.5 million for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$80.7 million is not expected to be recovered.

Customer payments and related expenses of direct payment proceedings are recorded as expenses as they are incurred.

Legal and accounting fees include fees and expenses of litigation related to proceedings.

These financial statements do not include accountability for assets and liabilities of members being liquidated by SIPC as Trustee. Such accountability is reflected in reports required to be filed with the courts having jurisdiction.

The following table summarizes transactions during the year ended December 31, 2008 that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	\$ 400,000	\$ 12,600,000
Add:		
Provision for current year recoveries	800,000	—
Provision for estimated future recoveries	1,800,000	—
Provision for estimated costs to complete proceedings	—	1,426,600,000
Less:		
Recoveries	1,200,000	—
Advances to trustees	—	13,600,000
Balance, end of year	\$ 1,800,000	\$1,425,600,000

## 5. Commitments

Future minimum rentals for office space in Washington, D.C., under a ten-year lease expiring August 31, 2015, are as follows: 2009 - \$539,911; 2010 - \$553,447; 2011 - \$567,259; 2012 - \$581,485; 2013 - \$595,988; 2014 - \$610,906; 2015 - \$417,490; for a total of \$3,866,485, as of December 31, 2008. Additional rental based on increases in operating expenses and real estate taxes is required by the lease. The rent holiday of \$41,567 and the leasehold improvement incentive of \$345,300 are being amortized over the life of the lease.

On August 31, 2007, SIPC renewed its lease for additional office space in Fairfax, Virginia. The new five-year lease commenced August 1, 2008. Future minimum rentals for the space, expiring on July 31, 2013, are as follows: 2009 - \$106,312; 2010 - \$109,502; 2011 - \$112,787; 2012 - \$116,171; 2013 - \$68,937; for a total of \$513,709 as of December 31, 2008. Additional rental is based on increases in operating expenses including real estate taxes as required by the lease.

In March 2006 SIPC entered into a \$500 million 3-year revolving credit facility with commitment fees of .10% per year. Additionally upfront fees averaging .14% were paid to certain banks. This facility expired in March 2009.

In March of 2007 an additional \$500 million 3-year revolving credit facility with a commitment fee of .10% per year was entered into. Upfront fees ranging from .12% to .15% were paid to certain banks based on the level of their commitment.

## 6. Fair value of securities

In 2008, SIPC adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with US GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years

beginning after November 15, 2007. SFAS 157 explains the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value of the U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 2008. As a bid quote on U.S. Government securities vary substantially among market makers, the fair value bid quote is considered a level 2 input under SFAS No. 157. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157, Fair Value Measurements*, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value at least once a year, to fiscal years beginning after November 15, 2008. SIPC elects to defer the application until the period beginning January 1, 2009.

U.S. Government securities as of December 31, 2008, included gross unrealized gains of \$189,728,898 and no gross unrealized losses.

## 7. Reconciliation of increase in net assets to net cash provided by operating activities:

Decrease in net assets	\$(1,241,591,086)
Net increase in estimated cost to complete customer protection proceedings	1,413,000,000
Realized and unrealized gain on U.S. Government securities	(132,368,130)
Increase in payables and accrued expenses	6,055,995
Net amortized discount on U.S. Government securities	1,527,672
Net decrease in estimated recoveries of advances to trustees	(1,400,000)
Decrease in prepaid expenses	710,340
Depreciation and amortization	148,640
Increase in accrued interest receivable on U.S. Government securities	(120,136)
Decrease in deferred rent	(5,337)
Loss on disposal of assets	1,338
Net cash provided by operating activities	\$ 45,959,296



## SECURITIES INVESTOR PROTECTION CORPORATION

### 8. Pensions and other postretirement benefits

SIPC has a noncontributory defined benefit plan and a contributory defined contribution plan which cover all employees. SIPC also has a supplemental non-qualified retirement plan for certain employees. The \$198,369 year end market value of the supplemental plan is reflected in Other assets and as a deferred compensation liability in Accrued benefit costs. In addition SIPC has two defined benefit postretirement plans that cover all employees. One plan provides medical and dental insurance benefits and the other provides life insurance benefits. The postretirement health care plan is contributory, with retiree contributions adjusted annually to reflect changes in gross premiums; the life insurance plan is noncontributory.

The provisions of Statement of Financial Accounting Standard No. 158 (FAS 158) (an amendment of FAS 132, 106, and 87) requires SIPC to recognize in the Statement of Financial Position the overfunded or underfunded status of the plans as an asset or liability in the Statement of Financial Position and to recognize the funded status in the year in which the change occurs through the Statement of Activities. In addition, SIPC is required to recognize within the Statement of Activities, gains and losses due to differences between actuarial assumptions and actual experience and any effects on prior service due to plan amendments that arise during the period and which are not being recognized as net periodic benefit costs.

	Pension Benefits	Other Postretirement Benefits
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$21,299,634	\$ 5,279,158
Service cost	642,564	157,372
Interest cost	1,310,967	344,099
Plan participants' contributions	—	18,053
Amendments	—	(3,214,704)
Actuarial loss (gain)	486,891	1,428,763
Benefits paid	(637,671)	(102,423)
Benefit Obligation at end of year	\$23,102,385	\$ 3,910,318
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	\$ 21,123,143	\$ —
Actual return on plan assets	(5,608,698)	—
Employer contributions prior to measurement date	1,260,000	—
Employer contributions	—	84,370
Plan participants' contributions	—	18,053
Benefits paid	(637,671)	(102,423)
Fair value of plan assets at end of year	\$16,136,774	\$ —
Funded status	\$ (6,965,611)	\$ (3,910,318)
Employer contributions between measurement and statement date	—	—
Funded status at year end	\$ (6,965,611)	\$ (3,910,318)
<b>Amounts Recognized in the Statement of Financial Position and Net Assets consist of:</b>		
Current liabilities	\$ —	\$ (92,612)
Noncurrent liabilities	(6,965,611)	(3,817,706)
Net amount recognized in the Statement of Financial Position	\$ (6,965,611)	\$ (3,910,318)
<b>Other Amounts Recognized within the Statement of Activities consist of:</b>		
Net actuarial loss	\$ 7,611,816	\$ 1,425,064
Prior service cost	(58,098)	(3,226,354)
Pension and Postretirement benefit changes other than net periodic benefit costs	\$ 7,553,718	\$ (1,801,290)
Accumulated Benefit Obligation end of year	\$20,442,324	\$ 3,910,318
<b>Weighted-average Assumptions for Disclosure as of December 31, 2008</b>		
Discount rate	6.00%	6.00%
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	9.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2017



	Pension Benefits	Other Postretirement Benefits
<b>Components of Net Periodic Benefit Cost and Other Amounts Recognized within the Statement of Activities</b>		
<b>Net Periodic Benefit Cost</b>		
Service cost	\$ 642,564	\$ 157,372
Interest cost	1,310,967	344,099
Expected return on plan assets	(1,726,383)	—
Recognized prior service cost	58,098	11,650
Recognized actuarial loss	210,156	3,699
Net periodic benefit cost	\$ 495,402	\$ 516,820
<b>Other Changes in Plan Assets and Benefit Obligations Recognized within the Statement of Activities</b>		
Net actuarial loss	\$ 7,821,972	\$ 1,428,763
Recognized actuarial loss	(210,156)	(3,699)
Prior service credit	—	(3,214,704)
Recognized prior service cost	(58,098)	(11,650)
Total recognized within the Statement of Activities	7,553,718	(1,801,290)
Total recognized in net benefit cost and within the Statement of Activities	\$ 8,049,120	\$ (1,284,470)
<b>Amounts Expected to be Recognized in Net Periodic Cost in the Coming Year</b>		
Loss recognition	\$ 1,034,069	\$ 149,368
Prior service cost (credit) recognition	58,098	(389,686)
Total	\$ 1,092,167	\$ (240,318)
<b>Effect of a 1% Increase in Trend on:</b>		
Benefit Obligation	N/A	\$ 568,524
Total Service Interest Cost	N/A	\$ 90,382
<b>Effect of a 1% Decrease in Trend on:</b>		
Benefit Obligation	N/A	\$ (467,754)
Total Service Interest Cost	N/A	\$ (74,971)
<b>Weighted-average Assumptions for Net Periodic Cost as of December 31, 2008</b>		
Discount rate	6.25%	6.25%
Expected asset return	8.00%	N/A
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	10.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2013



For the pension plan the change in unrecognized net gain/loss is one measure of the degree to which important assumptions have coincided with actual experience. During 2008 the unrecognized net loss increased by 35.7% of the 12/31/2007 projected benefit obligation.

The discount rate was determined by projecting the plan's expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. A 1% increase/(decrease) in the discount rate would have (decreased)/increased the net periodic benefit cost for 2008 by (\$315,500)/\$333,200 and (decreased)/increased the year-end projected benefit obligation by (\$2.6)/\$2.9 million.

The expected return on the pension plan assets was determined based on historical and expected future returns of the various asset classes, using the target allocations described at right.

## 9. Donated services

SIPC received contributed services of approximately \$5,000,000 for public service announcements during the year ended December 31, 2008. These contributed services were not recognized as revenue in the financial statements as they would not have been purchased if they were not contributed and SIPC determined that the services did not create or enhance a nonfinancial asset.

### Pension Plan Assets

Asset Category	Expected Long-Term Return	Target Allocation	Actual/Allocation 12/31/2008
Equity securities	10.25%	60-70%	65%
Debt securities	4.50%	40-30%	35%
<b>TOTAL</b>	<b>8.00-8.50%</b>	<b>100%</b>	<b>100%</b>

### Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

	Pension	Other Benefits
2009	\$ 745,648	\$ 95,400
2010	\$ 1,010,257	\$ 131,000
2011	\$ 1,127,099	\$ 153,900
2012	\$ 1,363,143	\$ 183,600
2013	\$ 1,456,321	\$ 196,100
2014-2018	\$ 9,122,899	\$ 1,292,300

### Contributions

The company expects to contribute \$4,000,000 to the pension plan and \$95,400 to the postretirement benefit plan during 2009.

### Defined Contribution Plan

SIPC contributions (60% of employee contributions, up to 3.6% of compensation)

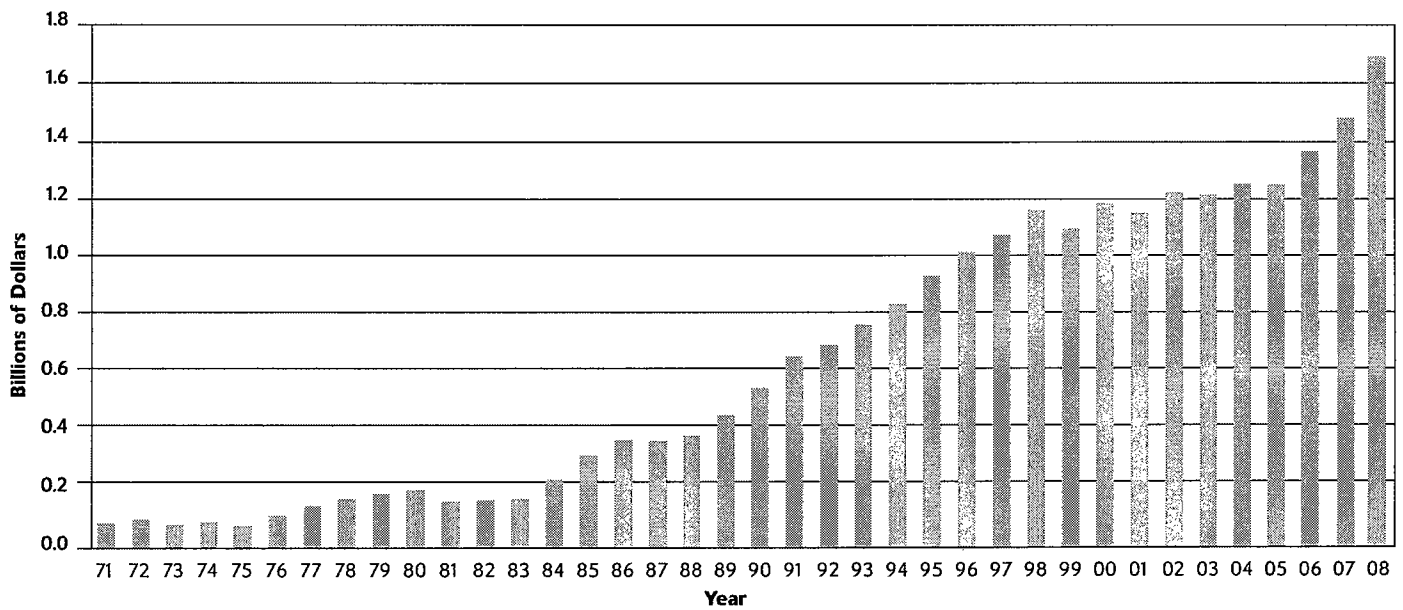
\$ 135,286



TABLE 5

### SIPC Fund Comparison

Inception to December 31, 2008



# **APPENDIX 1 DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS** for the Thirty-eight Years Ended December 31, 2008 (In Thousands of Dollars)

	From Debtor's Estates As Reported by Trustees	From SIPC			Total
		Advances*	Recoveries*	Net	
1971	\$ 271	\$ 401		\$ 401	\$ 672
1972	9,300	7,347	\$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882) <sup>†</sup>	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
2000	364,065	26,330	(3,413)	22,917	386,982
2001	10,110,355	200,967	(87,538)	113,429	10,223,784
2002	606,593	40,785	(5,812)	34,973	641,566
2003	(643,242) <sup>Δ</sup>	22,729	(4,425)	18,304	(624,938)
2004	209,025	(11,662) <sup>Δ</sup>	(37,700)	(49,362)	159,663
2005	(24,245) <sup>◊</sup>	1,175	(4,342)	(3,167)	(27,412)
2006	1,635,006	2,653	(51,942)	(49,289)	1,585,717
2007	1,167	7,054	(6,624)	430	1,597
2008	144,265,058	1,982	(709)	1,273	144,266,331
	<b><u>\$159,673,694</u></b>	<b><u>\$672,776</u></b>	<b><u>\$(348,983)</u></b>	<b><u>\$323,793</u></b>	<b><u>\$159,997,487</u></b>

\* Advances and recoveries not limited to cases initiated this year.

† Reflects adjustments to customer distributions in the John Muir & Co. customer protection proceeding based upon Trustee's final report.

Δ Reflects adjustments to customer distributions in the MJK Clearing, Inc. customer protection proceeding based upon Trustee's revised allocation.

◊ Reflects adjustment to distribution of customer assets subsequently determined not held by Donahue Securities, Inc.

## APPENDIX 2 ANALYSIS OF SIPC REVENUES AND EXPENSES

for the Five Years Ended December 31, 2008

	2008	2007	2006	2005	2004
<b>Revenues:</b>					
Interest on U.S. Government securities	\$ 67,597,794	\$ 67,670,369	\$65,487,278	\$ 62,754,357	\$63,085,146
Member assessments and contributions	816,322	852,025	894,941	927,597	972,817
Interest on assessments	3,337	3,531	2,929	3,947	5,430
	<u>68,417,453</u>	<u>68,525,925</u>	<u>66,385,148</u>	<u>63,685,901</u>	<u>64,063,393</u>
<b>Expenses:</b>					
Salaries and employee benefits	6,461,396	5,818,841	5,439,474	5,244,719	5,118,345
Legal fees	88,987	51,033	257,329	347,240	347,793
Accounting fees	84,817	75,962	72,277	48,333	36,050
Credit agreement commitment fee	1,686,889	1,698,657	2,164,497	2,218,971	2,864,300
Professional fees—other	179,957	342,549	179,575	164,602	184,882
<b>Other:</b>					
Assessment collection cost	9,127	15,416	9,492	7,984	10,788
Depreciation and amortization	148,640	160,201	160,453	150,247	161,437
Directors' fees and expenses	101,207	71,107	67,492	31,124	55,835
Insurance	32,544	32,184	30,970	30,621	28,988
Investor education	1,907,599	369,927	324,029	343,022	342,600
Imaging expenses	104,760	115,200	57,440	74,442	290,296
Office supplies and expense	143,778	70,629	85,457	132,282	149,968
EDP and internet expenses	366,148	435,441	352,902	338,582	378,024
Postage	16,814	9,619	11,165	11,040	15,050
Printing & mailing annual report	31,493	30,965	32,793	32,692	33,461
Publications and reference services	160,067	173,713	155,887	145,311	149,725
Rent—office space	707,604	663,850	678,667	631,764	619,450
Telephone	73,258	66,890	70,127	68,933	71,227
Travel and subsistence	283,452	92,668	122,258	156,671	126,827
Personnel recruitment	10,625			10,104	2,608
Miscellaneous	72,819	21,111	16,813	15,463	9,071
	<u>4,169,935</u>	<u>2,328,921</u>	<u>2,175,945</u>	<u>2,180,282</u>	<u>2,445,355</u>
	<u>12,671,981</u>	<u>10,315,963</u>	<u>10,289,097</u>	<u>10,204,147</u>	<u>10,996,725</u>
<b>Customer protection proceedings:</b>					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	296,456	(2,435,817)	(48,468,436)	(2,192,756)	(37,187,364)
Cash	(2,610,108)	(816,131)	(2,452,686)	(1,147,479)	(14,345,975)
	<u>(2,313,652)</u>	<u>(3,251,948)</u>	<u>(50,921,122)</u>	<u>(3,340,235)</u>	<u>(51,533,339)</u>
Administration expenses	9,884,474	2,098,243	(31,319,949)	17,565,057	30,564,773
	<u>7,570,822</u>	<u>(1,153,705)</u>	<u>(82,241,071)</u>	<u>14,224,822</u>	<u>(20,968,566)</u>
Net change in estimated future recoveries	(1,400,000)	6,000,000	85,300,000	(91,000,000)	34,300,000
	<u>6,170,822</u>	<u>4,846,295</u>	<u>3,058,929</u>	<u>(76,775,178)</u>	<u>13,331,434</u>
<b>SIPC as Trustee:</b>					
Securities	3,862,296	2,237,551	1,382,472	184,354	1,798,260
Cash	(276,003)	1,391,181	249,601	(9,714)	367,371
	<u>3,586,293</u>	<u>3,628,732</u>	<u>1,632,073</u>	<u>174,640</u>	<u>2,165,631</u>
Administration expenses	1,194,506	(97,104)	454,596	810,987	1,601,101
	<u>4,780,799</u>	<u>3,531,628</u>	<u>2,086,669</u>	<u>985,627</u>	<u>3,766,732</u>
<b>Direct payments:</b>					
Securities		52,561		(585)	2,141
Cash					2,805
		<u>52,561</u>		<u>(585)</u>	<u>4,946</u>
Administration expenses	639	4,828	188,282		16,272
	<u>639</u>	<u>57,389</u>	<u>188,282</u>	<u>(585)</u>	<u>21,218</u>
<b>Net change in estimated cost to complete proceedings</b>	<u>1,413,000,000</u>	<u>(8,700,000)</u>	<u>(11,000,000)</u>	<u>(19,900,000)</u>	<u>(8,200,000)</u>
	<u>1,423,952,260</u>	<u>(264,688)</u>	<u>(5,666,120)</u>	<u>(95,690,136)</u>	<u>8,919,384</u>
	<u>1,436,624,241</u>	<u>10,051,275</u>	<u>4,622,977</u>	<u>(85,485,989)</u>	<u>19,916,109</u>
<b>Total net (expenses) revenues</b>	<u>(1,368,206,788)</u>	<u>58,474,650</u>	<u>61,762,171</u>	<u>149,171,890</u>	<u>44,147,284</u>
<b>Realized and unrealized gain (loss) on U.S. Government securities</b>	132,368,130	63,088,803	(18,597,798)	(39,972,573)	(29,654,153)
<b>Effect of adoption of recognition provisions of FASB Statement No. 158</b>			(3,861,167)		
<b>Pension and postretirement benefit changes other than net periodic benefit costs</b>	(5,752,428)	(1,007,696)			
<b>(Decrease) increase in net assets</b>	<u>\$(1,241,591,086)</u>	<u>\$120,555,757</u>	<u>\$39,303,206</u>	<u>\$109,199,317</u>	<u>\$14,493,131</u>

## APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

### PART A: Customer Claims and Distributions Being Processed <sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker- Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc. Sylvania, OH (Thomas S. Zaremba, Esq.)	10/09/59	08/25/03	09/29/03	19,636	325	77
Financial World Corporation Overland Park, KS (SIPC)	09/13/96	01/12/06	01/18/06	1,383	112	8
Hanover Investment Securities, Inc. Madisonville, LA (SIPC)	08/30/82	02/28/08	02/28/08	826	92	32
North American Clearing, Inc. Longwood, FL (Robert N. Gilbert, Esq.)	11/15/95	05/27/08	07/28/08	43,383	1,541	22
Great Eastern Securities, Inc. New York, NY (SIPC)	03/01/72	08/26/08	09/03/08	16,102	234	
Lehman Brothers Inc. New York, NY (James W. Giddens, Esq.)	03/27/65	09/19/08	09/19/08	925,000	1,365	135,500
Bernard L. Madoff Investment Securities LLC New York, NY (Irving H. Picard, Esq.)	01/19/60	12/11/08	12/15/08	8,112*		
<b>TOTAL 7 MEMBERS: PART A</b>				<b><u>1,014,442</u></b>	<b><u>3,669</u></b>	<b><u>135,639</u></b>

\* Mailed on 01/02/09.

December 31, 2008

Distribution of Assets Held by Debtor <sup>(d)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 1,828,620	\$ 1,625,973	\$ 202,647	\$ 6,844,648	\$5,095,643		\$ 632,650	\$ 1,116,355
			668,180	60,138		562,023	46,019
9,087		9,087	3,598,017	21,808		3,447,512	128,697
10,706,137	10,656,041	50,096	2,750,000	2,750,000			
			55,579	55,579			
144,256,562,949	144,250,000,000	6,562,949	1,500,000	1,500,000			
2,312,224		2,312,224	964,000	964,000			
<b><u>\$144,271,419,017</u></b>	<b><u>\$144,262,282,014</u></b>	<b><u>\$9,137,003</u></b>	<b><u>\$16,380,424</u></b>	<b><u>\$10,447,168</u></b>		<b><u>\$4,642,185</u></b>	<b><u>\$1,291,071</u></b>

## APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

### PART B: Customer Claims Satisfied, Litigation Matters Pending <sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker- Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Adler, Coleman Clearing Corp. New York, NY (Edwin B. Mishkin, Esq.)	12/27/84	02/27/95	02/27/95	102,000	19,841	59,650
Sunpoint Securities, Inc. Longview, TX (Robert G. Richardson, Esq.)	11/09/89	11/19/99	11/19/99	22,234	4,535	9,738
Donahue Securities, Inc. Cincinnati, OH (Douglas S. Tripp, Esq.)	05/08/89	02/26/01	03/06/01	26,395	7,117	3,371
Clearing Services of America, Inc. St. Louis, MO (Thomas K. Vandiver, Esq.)	12/01/88	09/08/03	09/08/03	18,281	392	12
Penn Financial Group, Inc. Jenkintown, PA (SIPC)	11/15/99	11/05/03	11/12/03	356	81	38
NEBS Financial Services, Inc. Cleveland, OH (Donald H. Messinger, Esq.)	04/26/00	11/30/04	12/03/04	103,690	3,063	1,382
Paul L. Forchheimer & Co. New York, NY (SIPC)	08/08/52	12/12/06	12/12/06	109	14	11
<b>TOTAL 7 MEMBERS: PART B</b>				<b><u>273,065</u></b>	<b><u>35,043</u></b>	<b><u>74,202</u></b>



December 31, 2008

Distribution of Assets Held by Debtor <sup>(a)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 748,359,400	\$ 711,744,281	\$ 36,615,119	\$ 6,625,198			\$ 3,312,599	\$ 3,312,599
359,898,390	353,191,553	6,706,837	37,466,443	\$ 15,036,466		6,220,088	16,209,889
7,341,244	2,407,482	4,933,762	8,415,208	5,077,033			3,338,175
823,083	591,394	231,689	3,187,519	1,632,987		1,554,532	
250,000	250,000		2,558,149	114,110		1,916,313	527,726
1,162,635	611,523	551,112	6,724,569	5,845,934		878,635	
198,211	145,623	52,588	1,191,923	25,000		1,123,927	42,996
<b><u>\$1,118,032,963</u></b>	<b><u>\$1,068,941,856</u></b>	<b><u>\$49,091,107</u></b>	<b><u>\$66,169,009</u></b>	<b><u>\$27,731,530</u></b>		<b><u>\$15,006,094</u></b>	<b><u>\$23,431,385</u></b>

## APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

### PART C: Proceedings Completed in 2008

Member and Trustee By Date of Appointment	Date Registered as Broker- Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Total Customer Claims Satisfied
Consolidated Investment Services, Inc. Littleton, CO (Stephen E. Snyder, Esq.)	07/16/81	10/16/95	10/17/95	2,866	139	20
Old Naples Securities, Inc. Naples, FL (Theodore H. Focht, Esq.)	01/17/86	08/28/96	08/28/96	2,067	156	34
Stratton Oakmont, Inc. Lake Success, NY (Harvey Miller, Esq.)	01/08/87	01/24/97	01/29/97	22,630	3,378	362
First Interregional Equity Corporation Millburn, NJ (Richard W. Hill, Esq.)	09/03/77	03/06/97	03/10/97	11,097	5,416	5,299
John Dawson & Associates, Inc. Chicago, IL (SIPC)	10/30/72	04/08/99	04/13/99 05/17/07*	6,750	126	17
Clark Melvin Securities Corporation San Juan, PR (Cesar A. Matos-Bonet, Esq.)	10/24/60	10/17/01	10/17/01	1,903	36	15
Eisner Securities, Inc. St. Louis, MO (Harry O. Moline, Jr., Esq.)	05/15/96	10/30/01	10/30/01	23,000	330	13

\*Date Trustee Other than SIPC proceeding converted to SIPC as Trustee proceeding

December 31, 2008

Distribution of Assets Held by Debtor <sup>(a)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 5,653,628	\$ 295,000	\$ 5,358,628	\$ 10,093,775	\$ 9,528,511		\$ 565,264	
1,029,732	1,012,806	16,926	6,449,980	4,376,342		1,892,602	\$ 181,036
8,240,356	3,989,732	4,250,624	15,079,204	9,758,862		406,902	4,913,440
362,070,597	351,184,237	10,886,360	36,550,490	8,893,888		27,201,211	455,391
2,116,480	1,994,809	121,671	7,325,898	6,713,355		612,543	
1,142,798	995,217	147,581	882,532	380,497			502,035
571,713	293,588	278,125	2,899,476	795,794		2,103,682	

## APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

### PART C: Proceedings Completed in 2008

Member and Trustee By Date of Appointment	Date Registered as Broker- Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Total Customer Claims Satisfied
Northstar Securities, Inc. Dallas, TX (Michael J. Quilling, Esq.)	12/23/76	12/10/01	12/12/01	10,240	321	26
Park South Securities, LLC Iselin, NJ (Irving H. Picard, Esq.)	07/24/00	02/05/03	02/10/03	2,278	302	22
Rocky Mountain Securities & Investments, Inc. Denver, CO (John D. Shively, Esq.)	08/22/80	02/06/03	02/06/03	5,426	653	3,837
Austin Securities, Inc. Forest Hills, NY (SIPO)	12/12/85	04/14/05	04/14/05	1,911	108	20
Salomon Grey Financial Corporation Dallas, TX (Direct Payment)	01/26/98		11/28/06+	15,033	177	4
<b>TOTAL 12 MEMBERS 2008</b>				<b>105,201</b>	<b>11,142</b>	<b>9,669</b>
<b>TOTAL 296 MEMBERS 1973–2007(d)</b>				<b><u>1,760,177</u></b>	<b><u>400,077</u></b>	<b><u>541,257</u></b>
<b>TOTAL 308 MEMBERS 1973–2008</b>				<b><u>1,865,378</u></b>	<b><u>411,219</u></b>	<b><u>550,926</u></b>

+Date notice published

December 31, 2008

Distribution of Assets Held by Debtor <sup>(a)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 242,775	\$ 235,000	\$ 7,775	\$ 1,791,149	\$ 676,614		\$ 1,114,535	
3,855,806	3,816,023	39,783	9,417,175	5,220,077		3,964,176	\$ 232,922
59,256,742	58,300,000	956,742	5,432,618	1,257,461		3,599,790	575,367
2,013,146	1,882,914	130,232	2,358,926	200,257		929,769	1,228,900
			102,647	50,085		52,562	
<b>446,193,773</b>	<b>423,999,326</b>	<b>22,194,447</b>	<b>98,383,870</b>	<b>47,851,743</b>		<b>42,443,036</b>	<b>8,089,091</b>
<b><u>14,158,086,376</u></b>	<b><u>13,918,470,853</u></b>	<b><u>239,615,523</u></b>	<b><u>339,154,355</u></b>	<b><u>110,264,811</u></b>	<b><u>\$1,388,427</u></b>	<b><u>119,310,153</u></b>	<b><u>108,190,964</u></b>
<b><u>\$14,604,280,149</u></b>	<b><u>\$14,342,470,179</u></b>	<b><u>\$261,809,970</u></b>	<b><u>\$437,538,225</u></b>	<b><u>\$158,116,554</u></b>	<b><u>\$1,388,427</u></b>	<b><u>\$161,753,189</u></b>	<b><u>\$116,280,055</u></b>

## APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

### PART D: Summary

		Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Part A:	7 Members — Customer Claims and Distributions Being Processed	1,014,442	3,669	135,639
Part B:	7 Members — Customer Claims Satisfied, Litigation Matters Pending	<u>273,065</u>	<u>35,043</u>	<u>74,202</u>
	Sub-Total	1,287,507	38,712	209,841
Part C:	308 Members — Proceedings Completed	<u>1,865,378</u>	<u>411,219</u>	<u>550,926</u>
	<b>TOTAL</b>	<b><u>3,152,885</u></b>	<b><u>449,931</u></b>	<b><u>760,767</u></b>

Notes:

- (a) Based upon information available at year-end and subject to adjustments until the case is closed.
- (b) SIPA requires notice to be mailed to each person who appears to have been a customer of the debtor with an open account within the past twelve months. In order to be sure that all potential claimants have been advised of the liquidation proceeding, trustees commonly mail notice and claim forms to all persons listed on the debtor's records, even if it appears that their accounts have been closed. As a result, many more claim forms are mailed than are received. Responses Received usually exceeds Customers Receiving Distributions because responses are commonly received from customers whose accounts were previously delivered to another broker or to the customer. Responses are also received from persons who make no claim against the estate, or whose accounts net to a deficit, or who file late, incorrect, or invalid claims. The number of Customers Receiving Distributions can exceed Responses Received when the trustee transfers accounts in bulk to other brokers before claims are filed.
- (c) Includes assets marshalled by Trustee after filing date and does not include payments to general creditors.
- (d) Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.



December 31, 2008

Distribution of Assets Held by Debtor <sup>(a)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 144,271,419,017	\$ 144,262,282,014	\$ 9,137,003	\$ 16,380,424	\$ 10,447,168		\$ 4,642,185	\$ 1,291,071
<u>1,118,032,963</u>	<u>1,068,941,856</u>	<u>49,091,107</u>	<u>66,169,009</u>	<u>27,731,530</u>		<u>15,006,094</u>	<u>23,431,385</u>
145,389,451,980	145,331,223,870	58,228,110	82,549,433	38,178,698		19,648,279	24,722,456
<u>14,604,280,149</u>	<u>14,342,470,179</u>	<u>261,809,970</u>	<u>437,538,225</u>	<u>158,116,554</u>	<u>\$ 1,388,427</u>	<u>161,753,189</u>	<u>116,280,055</u>
<u><b>\$159,993,732,129</b></u>	<u><b>\$159,673,694,049</b></u>	<u><b>\$320,038,080</b></u>	<u><b>\$520,087,658</b></u>	<u><b>\$196,295,252</b></u>	<u><b>\$1,388,427</b></u>	<u><b>\$181,401,468</b></u>	<u><b>\$141,002,511</b></u>







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